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SUBJECT: MUTHARIKA'S THIRD YEAR: REFORM CONTINUES, BUT SLOWLY

¶1. (SBU) Summary: President Mutharika in May marked the completion of his third year in office. As with his first two years, the president's record in this past twelve months is one of mixed success. Mutharika has overseen a substantial improvement in Malawi's economy, but slow action in enacting critical reforms to improve the investment climate are limiting the potential for economic growth. At the same time, the president has failed to overcome the deadlock that has paralyzed the country's politics since early 2005, and his minority government remains unable to pass significant legislation or get approval for critical senior appointments. Mutharika is still Malawi's best hope for progress, and he is more reform-minded than the two main opposition leaders who might replace him. But the modest pace of Mutharika's reforms is leaving Malawi lagging behind many of its neighbors. End summary.

The Upside: The Economy and Food Security  
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¶2. (U) Without doubt the Mutharika government's greatest success to date has been the achievement of HIPC completion point in August 2006 and subsequent multilateral debt relief, which erased nearly all of Malawi's \$3 billion of foreign debt. That laudable goal was achieved through prudent management of government finances, and the president has rightly taken full credit for a job well done. The combination of debt relief, restrained government spending, and two successive good harvests has substantially bolstered the Malawi economy. Interest rates have come down, inflation is under 10% for the first time in many years, and the kwacha is stable. Malawi's sovereign credit rating was recently upgraded, and foreign investors are slowly beginning to show interest in the country. The local business community is guardedly optimistic, and there are promising signs of fresh investment in the form of new businesses, increased construction, and expanding consumer credit. In February the GOM signed a deal with an Australian firm to construct a uranium mine, the first large-scale mining investment in the country's history and the largest foreign investment of any kind in many years. At least one foreign tobacco company is planning a substantial new plant investment, and another has recently entered the market.

¶3. (SBU) Malawians have praised Mutharika for his strong efforts to solve Malawi's chronic food security problems. The president's massive fertilizer subsidy program, along with excellent rains, has yielded a second bumper harvest this year. Malawi possesses a considerable maize surplus and recently concluded a deal to sell 400,000 tons of maize to drought-stricken Zimbabwe. The president has prioritized investments in irrigation dams and grain storage facilities, and says he wishes to store enough grain to permit the country to withstand a two-year drought. This is music to the ears of Malawians, who place food security at the very top of their list of government priorities. The fertilizer subsidy program is very expensive, and some senior GOM officials admit that it cannot be sustained indefinitely. But the perceived success of the program and the approaching presidential elections in 2009 guarantee that

the subsidy will continue to be the centerpiece of GOM agricultural policy for at least the next two years.

#### The Darker Side: Timid Reform and Hostility to Business

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14. (SBU) While Mutharika's performance on macroeconomic reforms and debt relief is impressive, his actions thus far comprise only the first steps toward fixing the economy for the long term. Many more reforms are needed before Malawi can become the "producing and exporting country" of which the president dreams. There remain many major disincentives to investment, including a predatory tax regime, capricious and ill-organized bureaucracy, astronomical transport costs, and poorly functioning infrastructure. Many of Mutharika's ministers who should be working feverishly to facilitate investment are at best lukewarm toward the private sector, and some are openly hostile to the business community.

15. (SBU) Mutharika talks constantly of improving the enabling environment for business and investment, but has been unable to carry out even modest reforms to make Malawi more business-friendly. Malawi ranks very low in the World Bank's annual "Doing Business" survey, and in early 2006 the Bank launched an ambitious program to address some of the well-known barriers, particularly those that frustrate small and medium sized enterprises. Ministry of Trade and Bank officials outlined a series of "quick wins" that would help jumpstart the business investment, such as simplifying the regime for registering and licensing a small business. Nearly a year later, the project loan has just been approved by the World Bank Board, and none of the "quick wins" has been fully achieved, and Malawi will likely maintain its poor ranking in the World Bank survey this year. At the same time, the Trade Ministry proposed a new draft national investment code that actively discourages foreign investment in the small business sector, and suggests that many

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types of enterprises should be reserved for "indigenous Malawians" only. That xenophobic attitude on the part of Trade Ministry officials accurately reflects broader public opinion, which tends to view foreign business interests with suspicion.

16. (SBU) Mutharika himself has also shown continued hostility toward some foreign investment, in particular foreign tobacco buyers who he believes are not paying adequate prices at the government auction. He publicly attacked the manager of the largest foreign tobacco company, Limbe Leaf, and forced him to leave the country by denying the renewal of his work permit. The GOM has delayed work permits for many other expatriate tobacco executives, ostensibly on "Malawianization" grounds but in fact contrary to the existing investment code and clearly as punishment for low prices. Mutharika demanded and got agreement from tobacco buyers for minimum prices at the start of this year's auction season in March. He continues to threaten the buyers in campaign speeches, a tactic very popular with the masses. His aggressive behavior toward tobacco executives is remarkable considering the enormous importance of tobacco as a foreign exchange earner. Mutharika recently mandated minimum prices for cotton, and has promised to dictate prices for other "strategic" crops.

17. (SBU) All the while, the president talks relentlessly of fanciful pet projects that have at best a limited chance of success. Among these are the Shire-Zambezi Waterway project to reopen commercial river shipping through Mozambique, a university of science and technology in Lilongwe, and a major medical research center and university in the president's home town of Thyolo in southern Malawi. Mutharika's version of "the vision thing" is useful for inspiring Malawians to dream for the country's future, but the hard reality is that such projects are simply out of reach for a government that gets 40% of its annual operating budget from donors. Many observers believe the president's efforts might be better spent on projects that have a more realistic chance of coming to fruition.

#### The Real Negatives: Political Paralysis and Autocratic Behavior

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¶8. (SBU) Since Mutharika quit his former United Democratic Front party in February 2005 and formed a minority government with his new Democratic Progressive Party, Malawian politics have been paralyzed.

A brutal impeachment fight and subsequent tit-for-tat acts of political retribution gave way to a standoff situation that has existed for the past 18 months, where almost no legislation is passed and few presidential appointees are approved by Parliament. That standoff has rendered the centerpiece of Mutharika's presidency, his anti-corruption campaign, effectively inoperative. The president is unable to get parliamentary approval for a permanent director and deputy of the Anti-Corruption Bureau, and thus cannot easily prosecute high-level corruption cases. Parliament has also denied him appointments for other anti-corruption related positions such as the auditor general and director of the new financial intelligence unit to combat money laundering. The lack of appointees to such critical positions has limited the scope and intensity of anti-corruption efforts, and has meant that many reforms are limited to changes in bureaucratic procedures and regulations. While these are important tactics in fighting corruption, they do not carry the same political and public relations impact as the prosecution of high-level corruption cases of important personalities.

¶9. (SBU) Mutharika is currently locked in a bitter fight with the opposition over the appointment of commissioners to the national election commission, and his unwillingness to compromise (by naming some candidates approved by the opposition) has rendered Malawi unable to conduct any elections, including long-delayed local council polls that were due to be held in May 2005. The paralysis has also affected Malawi's efforts to revise and improve its constitution, which contains several problematic passages that have weakened the country's democracy and contributed to political instability. The president's weak standing in Parliament and the current contentious climate make urgently needed constitutional reforms all but impossible to enact.

¶10. (SBU) Mutharika's personal style is a large part of the problem.

He has an unbending will and wants things done his way, and seems unwilling to meet the opposition halfway in crafting political compromises. His style displays little subtlety, and he appears to believe that he can bring the recalcitrant opposition to heel through bluster and threats. Even many of his political allies complain that he is autocratic and will not compromise or listen to advice. In government, there are lurid tales of documents thrown at ministers and colorful name-calling in cabinet meetings, and there is a distinct trend by ministers to attempt to form advocacy coalitions within the cabinet so that, as one Minister put it, "he can't fire us all." Loyalty to Mutharika's DPP appears to be

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increasingly important; his recent cabinet reshuffle saw the ejection of two ministers who failed to join the party and the elevation of some of the more sycophantic personalities in the cabinet.

¶11. (SBU) Even more worrying are several clearly anti-democratic actions Mutharika has taken this year against the opposition and the news media. This continues a troublesome trend that has been evident since the president's first year in office. In February the Malawi Army dispersed an opposition rally, reportedly on direct orders from Mutharika. This was the first such intervention by the military in the country's democratic history, and was doubly worrying because it was in direct defiance of the courts. The Army was used because a court injunction had prohibited only the Malawi police from stopping the rally; Mutharika subsequently changed tack and told the opposition they could meet anywhere, any time. Mutharika's ministry of information has restricted the operations of private independent radio stations and threatened withdrawal of broadcast licenses. The most vocal independent newspaper, "The Chronicle," closed its doors this year after the owner claimed Mutharika's daughter had deliberately poached all of his reporters to work for her own newspaper, a claim she did not deny. Vice President Cassim Chilumpha is still awaiting trial on treason charges, over a year after his initial arrest. Chilumpha was held under house arrest for more than six months before his bail terms were softened, and his movements are still restricted. The

government has refused to make public the evidence against Chilumpha, and has made scant effort to push the case forward to trial.

#### Still Headed the Right Way, But Slowly

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¶12. (SBU) Malawi under Mutharika is still moving in the right direction, albeit quite slowly. The president has faced substantial political challenges, but many of the difficulties are of his own making. His macroeconomic improvements notwithstanding, Mutharika has not done enough to change things that are within his power, such as creating a more business-friendly environment that would encourage greater investment and faster growth. Malawi is moving forward, but others are moving faster, and the country is falling behind neighbors like Tanzania, Zambia and Mozambique that are reforming more aggressively. If Mutharika does not take bolder action, Malawi will continue to lag farther behind its neighbors.

¶13. (SBU) Mutharika remains the country's best hope for reform, provided he can strengthen his political position in Parliament and move his reform agenda forward. Neither of the two principal opposition leaders and potential presidential candidates, Bakili Muluzi and John Tembo, has outlined a positive vision for Malawi and each would certainly take the country in a less progressive policy direction. Mutharika enjoys widespread public support for his success in improving the economy and food security and his efforts to combat corruption. The campaign for the 2009 presidential and parliamentary election is already underway, and Mutharika's ministers are confidently predicting the president can win a decisive majority in Parliament. If that happens, Mutharika's chances to enact significant long-lasting reforms will be greatly enhanced. But a lot can go wrong in the two years between now and ¶2009. Malawi is still highly vulnerable to drought, and a bad harvest could sour the economic picture and reverse Mutharika's political fortunes.

¶14. (SBU) Finally, one significant unknowable in Malawi's governance is what effect the death May 28 of Mrs. Ethel Mutharika will have on the President's state of mind and decision-making stability. As we noted earlier this week, by all accounts she was a key member of his inner circle and a person on whom he relied for advice and counsel.

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